

NEW CONFIDENTIAL ECONOMIC BULLETIN

PRIVATE SECTOR ORGANISATION OF JAMAICA

Monthly Analysis of the Jamaican Economy

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OVERVIEW

Inflation and interest rates continued their downward movement in December with the repo rate falling to 27% and point to point inflation coming in at just under 20% at the end of November. Despite an increase in liquidity in December, it appears that money supply growth is still being kept in check. The main threat to the continuation of these trends is the increasing advances to financial institutions by the BOJ and the growing deficit in the finances of central government. If these two problems are kept in check, fiscal year inflation could come in at the 9-12% range, bringing T-bill rates down to about 20% by the end of the first quarter of 1997. Both variables could hover in this range for the next quarter or even fall a little further, after which the government's economic policy will probably go into full election mode.

Looking ahead at 1997, one might expect some continuation of the present policies for at least the first half of the year, with a gradual relaxation of them as the elections draw near. This assumes that the problems in the banking sector do not take a turn for the worse and that the fiscal deficit is kept under some control. These latter two points are key to the continuing restraint on money growth and consequently to the maintenance of the existing

exchange rate. The latter factor seems to be a central and critical objective of government policy in the pre-election period.

While the current trends in the interest and inflation rates are likely to hold for now, the economy will still be undergoing increasing contractionary pressures. This is so because lending rates are not coming down at the same pace as these two variables and are in fact becoming higher in real terms as a result of the decline in inflation. The high cash reserve ratio and the weakened loan portfolios of the banks are the principal reasons for this situation. We can therefore look forward to a continuation of the job losses that have been taking place in 1996, and for things to continue to be touch and go in the financial sector for a while yet. Of course the financial sector has the government sponsored "bailout" plan to look forward to, but the precise nature of this plan has not yet been ironed out and an adjustment in policy would be a much cheaper rescue option for the sector and for the country as a whole.

The government is reportedly seeking up to US\$400 million to borrow from the multi-lateral lending agencies to shore up ailing insurance and banking institutions. This is a huge sum of money for a small economy such as ours, and depending on how it is introduced into the economy it could have major positive or negative effects on the country as a whole. The worst possible scenario would be for it to enter the economy when the exchange rate is over-valued and lending rates are still at an investment-inhibiting level, thus leaving consumption to be the main beneficiary of this capital injection. Of course the timing of the disbursement is also quite important. The multi-laterals are not known for their speedy processing of loan applications and there is likely to be some haggling about conditionalities etc. Let us hope that our policy-makers do not just sit and wait on the loan package, but start to make changes to the policy environment that contributed to the problem in the first place.

Although there is likely to be no growth in the economy this year and possibly further contraction, some sectors will do well. The high wage increases that were granted in 1996 will give greater spending power to those who still have jobs. Higher real wages and lower lending rates will give a boost to consumer spending. Sales of consumer durables should do well. The equities market should also be quite buoyant, if somewhat volatile, as investors

seek an alternative to the money market. Cost containment will continue to be the order of the day, as most firms try to maintain a positive net margin in a contracting, high interest rate (lending) environment.

Despite this rather gloomy forecast, please accept our best wishes for a happy and prosperous 1997.

Net International Reserves

The Net International Reserves (NIR) reversed its declining trend of September and October to increase by US\$4.54 million to US\$663.11 million at the end of November. This stock of NIR reflects 15.50 weeks of imports up from 15.47 at the end of October 1996.

This increase in NIR was mainly due to a decrease in Gross Foreign Liabilities, which moved from US\$192.19 million at the end of October to US\$188.85 million at the end of November, a decrease of US\$3.34 million. There was only a marginal increase in Gross Foreign assets of US\$ 1.2 million over October's figure to bring the stock at the end of November to US\$851.96 million. December should see a larger increase in NIR as the inflows of foreign currency should increase in keeping with the Christmas season.

Foreign Exchange Accounts

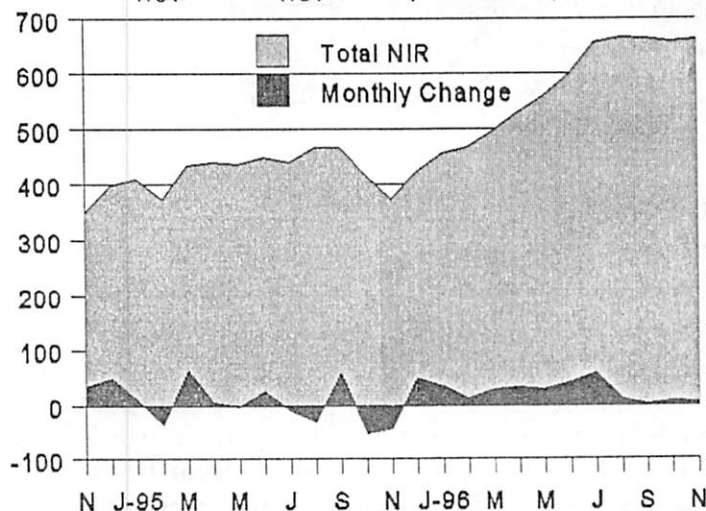
The preliminary figure for the funds in the foreign

currency accounts at the end of November was US\$699.5 million suggesting US\$1million increase over October's stock of US\$ 698.5 million.

Activities in Foreign Exchange Accounts in November show US\$547.76 million in lodgements, as against US\$546.74 million in withdrawals, this is in contrast with lodgements of US\$575.2 million and withdrawals of US\$580.40 million in October.

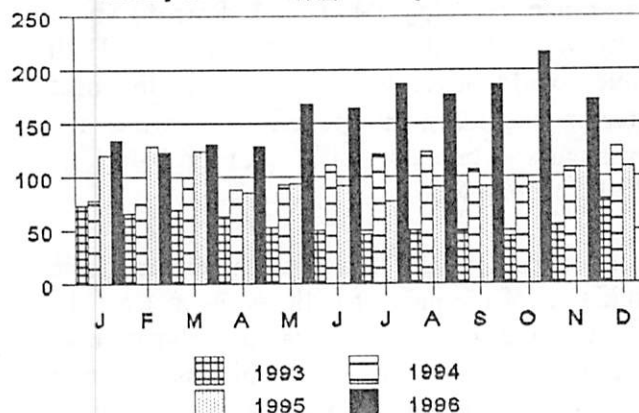
CHANGES IN INTERNATIONAL RESERVES

Nov 1994 - Nov 1996 (US\$Million)



FOREIGN CURRENCY PURCHASES(MTHLY)

January 1993 - Nov 1996 (US\$Million)



The buoyancy in the Interbank Market for authorized dealers in foreign exchange continued in November. Foreign exchange purchases for the month in the spot market were US\$172.18, while sales were US\$183.25. This represents approximately a 66.92% increase in activities in this market over the same period last year.

Exchange Rate

The stability of the Jamaican Dollar vis-a-vis its Foreign counterparts continued during December. It was sold for an average of J\$35.10 to US\$1, J\$55.20 to 1 pound sterling, and J\$25 to \$1 Canadian at the end of trading December 30, 1996.

The Bank of Jamaica continues to carefully monitor the market and the stability of the Jamaican Dollar should continue into the early months of 1997.

Interest Rates

Rates in the Commercial Banking Sector continue to fall slowly while the inflation rate falls rapidly. As a consequence, real lending rates continue to be in the low 30's, hopefully this should fall below the 20% mark by early 1997 if the present policy framework of the Authorities continues.

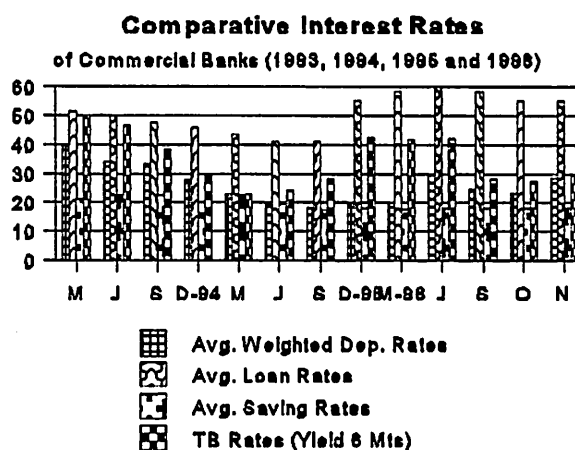
During November the upper boundary of Fixed deposit rates moved from 27% to 32% at the end of November reflecting a shortage of available funds to some commercial banks. Average loan rates remain at 55.22%.

From the four (4) new T-bill offers for the month of December, the results were as follows.

- * For J\$1000 million for 182 days it was over-subscribed by J\$746.9 million and yielded 28.83% interest on average.
- * For J\$ 1000 million for 365 days it was over-subscribed by J\$1065.7 million and yielded 29.28% interest on average.
- * For J\$500 million for 196 days it was oversubscribed by J\$1846.624 million and yielded 26.36% interest on average.

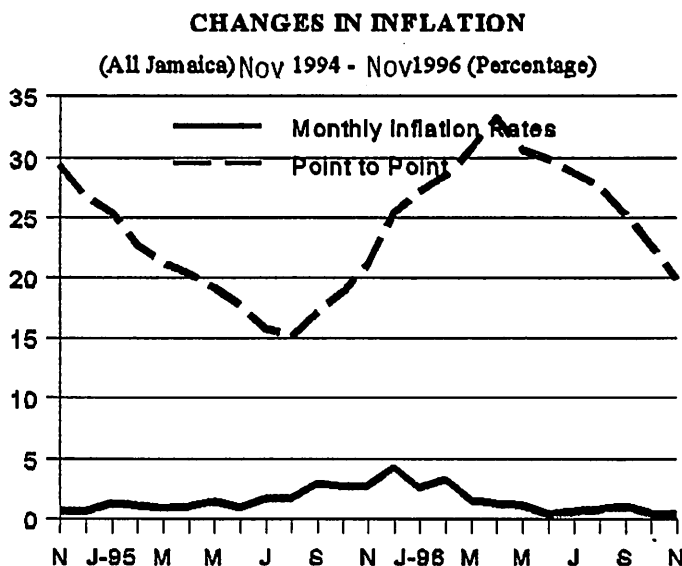
- * For J\$400 million for 364 days it was oversubscribed by J\$1644 million and yielded 26.5 % interest on average.

These results show that investors in the Jamaican economy are anticipating a reduction in interest rate hence the massive oversubscription of the 365 days issue as investors seek to lock in at high interest rates. The BoJ has signaled its continued commitment to reducing interest rates by lowering the repo rates from 29% to 27% the day after the last issue.



Inflation

The inflation rate for November was 0.4% continuing the marginal trend in inflation increases



experienced in the recent past months. This marginal rise brings the year to date inflation rate to 14.83% and the point-to point rate to 19.83%. Assuming that this marginal increase trend continues and there is a seasonal factor influence on prices, the annual rate for 1996 could be within 15-17%.

However, the marginal monthly rise in inflation should continue into the early months of 1997 so that the inflation for Fiscal year 1996/97 could be in the 10-12% range, thus achieving the Government's target.

The projected 15-17% rate for 1996, means a significant decline from 26.6% of 1995, and if it influences wages and other costs it, could mean some overall fall in costs to businesses as well as lower prices to consumers.

Base Money

November saw base money rising by 0.87% and follows on a 3.7% increase in October and a 4.4% decline in September. The marginal movement shown in November, reinforces the erratic trend base money levels have exhibited during the year. This has resulted in its growth rate for the year so far, being only 1.2% while the declining point-to point rate reached 14.82% in November down from 30.58% in December 1995.

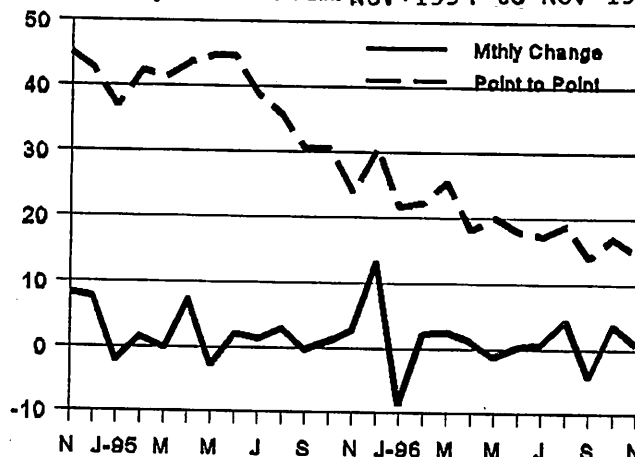
Although in November, increases in the level of 'currency with the public' was significant, the decline in Commercial Bank's balances with BOJ resulted in an overall lower level of increase in base money. This should have the effect of tempering the growth of money supply.

Money Supply

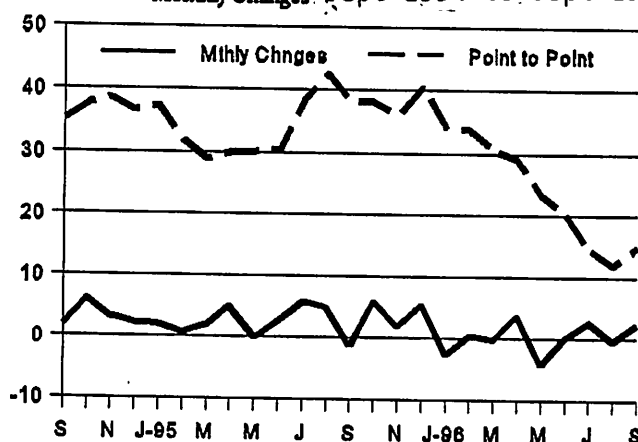
In September, money supply grew by 2.4% following on a 0.5% decline in August. This indicates the continuing of the fluctuating trend

exhibited by money supply levels during the year. This trend has served to give some stability to the overall levels of money supply, while establishing

CHANGES IN BASE MONEY
Monthly and Point-to-Point NOV. 1994 to Nov 1996



CHANGES IN M2
Monthly Changes Sept 1994 to Sept 1996



a declining trend in the point to point measure of this variable.

Early November, there was a substantial jump in the value of the total assets of the BOJ which will in turn put upward pressure on base money and in turn money supply. This is not a positive development and does not auger well for future inflation.

Tourism

The monthly figures for the arrivals of tourists to the island continue to show declines when compared with similar months in 1995. For November 1996, total tourist arrivals, that is, stop-overs and cruise passengers showed an overall decline of 13.92% over November 1995. Cruise

passengers fell by 30.15% while stop-overs rose by 1.05%. In addition, the arrivals of nationals for November 1996 compared with 1995, showed a 46.27% decline.

However, for the period January to November 1996, compared to the similar period in 1995, total tourist arrivals rose by 4.54%. Stop-over visitors and cruise passengers increasing by 3.53 and 6.23% respectively. The arrivals of nationals for these periods compared, showed a 13.13% fall and this contributed to an overall rise of 3.37% in total visitor arrivals.

The 1.623 million visitor arrivals up to November '96 equals the arrivals for all of 1995.

Earnings for the sector up to October this year were US\$904.7 million, or 5.23% more than at October 1995.

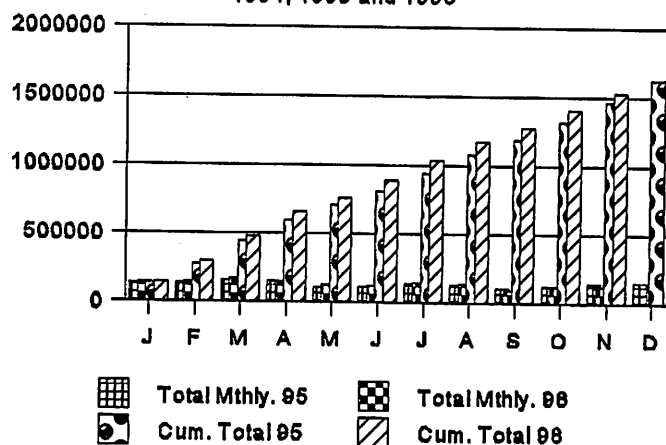
The 1996 tourist winter season has begun and there are mixed comments coming from the sector. While there is an overall comment of cautious optimism about the season being good. The owners and operators of large plants are optimistic, while the owners of villas, small plants and community-based operators are cautious to pessimistic. None - the -less, the disastrous conditions of the roads as they are being repaired and as sewerage and water mains are being laid in the main resort areas of Negril, Ocho Rios and Montego Bay, will certainly not be conducive to an upbeat season. All these facilities are crucial to enhancing the tourism product. However, as visitors arrive in equal numbers all year round, the appropriateness of the timing of these repairs is debatable. It is therefore hoped that they will be speedily completed and function efficiently so as to lessen the need for further disruptions.

Merchandise Trade

At the end of the first nine months of 1996, Jamaica's expenditure on imports stood at US\$2.088 billion, growing by 2.7% or US\$54.2 million over January to September 1995.

TOURIST ARRIVALS

1994, 1995 and 1996



Total exports at September stood at US\$1.059 billion, indicating a decline of 4.6% or US\$50.6 million when compared with September 1995.

The trade deficit stands at US\$1.029 billion compared with US\$924.2 million at September 1995. In fact the trade deficit at September '96 is only US\$15.7 million less than it was in October 1995. So, by December '96 it could be well over US\$100 million greater than in 1995.

Imports: Total imports at September valued US\$2087.7 million of which Consumer Goods had a 25% share, Raw Materials 56.8% and Capital Goods 18.2%. These categories of imports showed increases of 52.4%, 39.4% and a 37.6% decline respectively over comparable periods in 1995.

Exports: Total exports for January to September 1996 were valued US\$1058.7 million. Of this, Traditional exports - bauxite, alumina, sugar, bananas - earned US\$639.7 million, other traditionals, coffee, cocoa citrus etc. earned US\$57.8 million, and non-traditionals - including the apparel sector earned US\$327.6 million. As the overall earnings from exports show decline, products contributing to this include alumina, bananas, cocoa, apparel as well as other non traditional export products.

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BALANCE OF PAYMENTS

	Merchandise	Services	Transfers	Current A/c	Capital A/c	NIR A/c
Dec '95	-1342.60	508.20	579.30	-255.10	278.50	421.31
Jan-Sept'95	-924.1	436.0	424.20	-64.00	134.20	468.05
Jan-Sept'96	-1029.00	568.00	380.40	-80.60	324.60	665.32

MACRO-ECONOMIC INDICATORS
(December 1994 - November 1996)

MONTHS	BASE MONEY		NET INT'L RESERVE	FOREX ACCTS	INFLATION		TOURIST ARRIVALS			CHANGES IN M2 (Money Supply)	
	Mthly. Chng.	Point to Point	Total NIR	Total Balances	Mthly Chng	Point to Point	Total Visitors	Stop-overs	Cruise	Mthly. Chng.	Point to Point
Dec.94	7.71	42.71	397.92	649.76	0.7	26.80	147290	94127	53017	2.31	36.57
Jan. 95	-2.22	36.91	408.70	655.12	1.3	25.40	138969	81385	57570	1.85	37.22
Feb.	1.78	42.37	373.13	640.34	1.1	22.70	140787	86147	54281	0.55	31.82
Mar	0.00	41.43	435.30	625.15	0.9	21.20	164222	96378	67844	1.99	28.89
Apr	7.50	43.65	440.41	652.66	1.1	20.76	141814	86552	55262	4.93	30.01
May	-2.80	44.75	437.55	651.42	1.5	19.20	106772	71945	34827	0.00	30.16
Jun.	2.21	44.65	449.89	656.38	1.0	17.80	118253	87480	30773	2.70	30.22
Jul. 95	1.37	38.84	440.35	654.51	1.7	15.80	138624	101244	36780	5.88	38.15
Aug	3.15	35.57	411.23	676.25	1.7	15.10	133198	90747	42451	4.84	42.44
Sept	-0.37	30.45	468.05	646.13	3.0	17.20	110372	66663	43709	-1.29	38.19
Oct.	1.08	30.56	416.42	682.86	2.7	18.80	128394	72803	55591	6.03	38.04
Nov.	2.87	24.00	373.22	740.06	2.8	21.20	148839	77419	71419	1.73	36.11
Dec.95	13.43	30.58	421.31	737.30	4.3	25.50	157819	100183	57636	5.53	40.40
Jan 96	-8.92	21.63	455.79	706.09	2.6	27.22	150561	86184	64377	-2.78	34.00
Feb.	2.38	22.36	467.52	713.21	3.3	29.94	150355	94449	55906	0.27	33.64
Mar.	2.62	25.55	496.26	702.8	1.6	30.80	180218	108407	71811	-0.35	30.58
Apr.	1.26	18.27	529.37	765.6	1.3	31.30	149663	89030	60633	3.66	28.99
May	-1.23	20.18	558.01	713.3	1.2	30.64	131052	82967	48085	-4.4	23.31
June	0.32	17.96	598.43	703.9	0.4	29.9	127745	90366	37379	0.1	20.23
July	0.82	17.32	656.55	692.0	0.7	28.8	148901	96742	52159	2.8	14.55
August	4.5	18.89	667.09	691.0	0.8	27.7	139629	89910	49719	-0.5	11.90
Sept.	-4.4	14.04	665.32	708	1.1	25.30	100543	66219	34324	2.4	15.04
Oct.	3.7	17.1	658.57	689.5	0.5	22.68	126110	68726	57381	-----	-----
Nov.	0.87	14.82	663.11	699.5	0.4	19.83	128119	78231	49888		

* Provisional

Source: Compiled from National Statistics as Supplied by Bank of Jamaica, Planning Institute of Jamaica and Jamaica Tourist Board.